

CUSC Alternative Form

CMP381 WACM4:

Defer exceptionally high Winter 2021/22 BSUoS costs to 2022/2023

Overview: Same as the Original, except:

- Half-hourly BSUoS Price cap set at £20/MWh to limit the effect of unforeseen costs.
- Maximum amount which can be deferred set at £200m.
- This would apply for Settlement Periods from the next Business Day after The Authority's decision until the earlier of a) 31st March 2022 or b) when the £200m limit has been reached.

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What is the proposed alternative solution?

- Set a £20/MWh cap on the BSUoS Price of each half hour Settlement Period
 - This would apply from the next Business Day after The Authority's decision until 31st March 2022
- Cap the additional BSUoS costs that would be deferred to £200m. In effect, the scheme would end immediately if the £200m limit were reached.
- Defer the additional BSUoS costs above the £20/MWh cap to the 2022/23 Financial Year up the total cap of £200m, using a similar mechanism as approved under CMP345¹ and CMP350² to calculate the amount to be deferred.
- These costs would be recovered in Financial Year 2022/23, using a similar mechanism to the one implemented under CMP373³ i.e. equal recovery each settlement day, which is volume weighted throughout the day
- The ESO will provide weekly updates on how much of the £200m has been used. The ESO will move to updates each working day when 60% of the total support has been used.
- The scheme will end in the settlement period immediately prior to the one in which the overall limit has been reached.

What is the difference between this and the Original Proposal?

The four differences between this and the Original Proposal are:

1. A greater cap, set at £20/MWh rather than £10/MWh
2. No retrospective changes to Settlement Dates, i.e., this change applies from the next Business Day after The Authority's decision rather than 1st January 2022
3. A lower threshold for when the deferral would end, set at £200m rather than £300m
4. Move to daily reporting once 60% of the total support has been reached and the scheme ceases the settlement period prior to the one in which the overall limit is reached.

We will now provide rationale for these differences.

The cap proposed here is set at £20/MWh rather than £10/MWh, as this is more reflective of what constitutes an unforeseen BSUoS Price. Across Autumn 2021 (September-November), 9.2% of Settlement Periods had a BSUoS Price exceeding £20/MWh. This is a similar proportion to the 7.0% of Settlement Periods which exceeded £10/MWh during the Covid Support Scheme implemented under CMP345 and CMP350. It seems reasonable to defer the costs from a similar proportion of Settlement Periods as was done for that time period, while adjusting as BSUoS Prices are now higher. Additionally, BSUoS prices have historically been higher in winter than in summer, so again it seems reasonable to set a higher cap for a winter deferral period than a summer one.

Over the calendar year 2021, the mean BSUoS Price for a Settlement Period has been £5.99/MWh with a standard deviation of £6.89/MWh. Therefore, the sum of the mean and two standard deviations (for a dataset which is approximately a normal distribution, this gives around 95% confidence) for 2021 is £19.77/MWh. Consequently, the ESO proposes a £20/MWh cap to limit any extreme Settlement Periods which go above this value (rounding up to £20/MWh for simplicity).

This alternate proposes not to have retrospective implementation. The primary concern is that retrospectivity could undermine previously settled market positions and adversely

affect different parties, leading to an overall negative market impact. The other concern for implementing this modification retrospectively is that doing so would set a precedent for future code change to also be set retrospectively.

This proposal sets the total limit for how much revenue can be deferred to £200m. This £200m is inclusive of the ESO's financing and administration costs in order to undertake this deferral process.

The ESO is open to providing support to industry; however, the ESO currently has other financial commitments, which makes providing support, at short notice, very challenging for a legally separate company with a Regulatory Asset Value of £250m.

These other financial commitments include:

- £100m of TNUoS funding - predominately the "k" factor demand under recovery from Financial Year 21, which the ESO will only recover in Financial Year 23;
- Additional risks such as significant bad debt with the high number of suppliers that have ceased in Financial Year 22; and
- Uncertainties resultant from ESO's role as industry revenue collection agent as well as further ongoing regulatory change.

The maximum support that the ESO can provide is £200m. This provides a significant level of support to industry whilst ensuring that the ESO can also maintain its existing commitments.

Industry information is very important regarding when the support scheme may end, therefore due to the current market conditions, we think that moving to daily reporting at 60% of total support usage may be more effective than 80% set out in CMP350. In addition, to ensure that the scheme isn't ended early due to forecasting a cluster of high cost periods which may not materialise, we propose to end the scheme in the settlement period immediately prior to the one in which the over £200m limit was exceeded.

What is the impact of this change?

Proposer's Assessment against CUSC Charging Objectives	
Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	Positive: This proposed approach would provide support to industry to limit the impact of unforeseen BSUoS prices
(b) That compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and accordance with the STC) incurred by transmission licensees in their transmission	Positive: A £20/MWh cap means that BSUoS costs which could be considered unforeseen for the current market are limited.

businesses and which are compatible with standard licence condition C26 requirements of a connect and manage connection);	
(c) That, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses;	None:
(d) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and	None:
(e) Promoting efficiency in the implementation and administration of the system charging methodology.	Negative: Adding in an extra process to defer costs from one financial year to another inherently makes the system charging methodology more complex. This same rationale applies to the Original and any other potential alternates.
*Objective (d) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).	

When will this change take place?

Implementation date:

1 Business Day after decision, currently expected to be 17th January 2022

Implementation approach:

Update the BSUoS charging methodology in Section 14 of the CUSC, in a similar manner to how this was done for modifications CMP345 and CMP350. CMP381 would necessitate a change to the ESO's Licence, in the same way that CMP345 and CMP350 did.

The ESO can use a similar process as to the Covid Support Scheme – any Settlement Periods where the BSUoS Price exceeds £20/MWh will be capped. The total amount in £ which is deferred will then be recovered by the ESO in Financial Year 2022/23, using a similar mechanism as for CMP345 and CMP350. Costs will be recovered equally each settlement day, volume weighted throughout the day.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSUoS	Balancing Services Use of System
CMP345	CUSC mod - 'Defer the additional Covid-19 BSUoS costs'
CMP350	CUSC mod - 'Changes to the BSUoS Covid Support Scheme'
CMP361	CUSC mod - 'BSUoS Reform: Introduction of an ex-ante fixed BSUoS tariff'
CMP373	CUSC mod - 'Deferral of BSUoS billing error adjustment'

Reference material:

1. <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp345-defer>
2. <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp350-changes>
3. <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp373-deferral>
4. <https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp361-cmp362>